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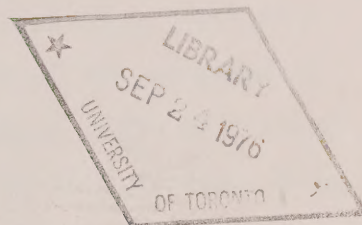
**national farmers union**

*In Union is Strength*

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Government  
Publication



**National Farmers Union**

**Submission to the**

**Grain Handling and Transportation Commission**

**presented at**

**Saskatoon, Saskatchewan**

**September 7, 1976**



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INTRODUCTION

1. Since our organization appeared before your Commission for the first time in October, 1975, the debate on the subject of what shape and structure grain handling and transportation systems in the prairie region should take in future has continued unabated.
2. The Commission has extended widespread opportunity to rank and file people at the local level to express their views and concerns over the possible implications to them, as individuals, and their communities, provinces and country should certain basic branch lines be abandoned.
3. We commend your Commission for its organization of these hearings. We appreciate the tremendous volume of additional work this has created for you and your staff. However, it has unquestionably been an indispensable exercise in encouraging grassroots democracy.

TRANSPORTATION

4. Running parallel to the study by your Commission has been the inquiry of the Snavelly Commission which we understand has now completed or is nearing completion of its report on the cost of moving grain into export position.





5. It was previously and continues to be our expressed view that the terms of reference for that study were too narrow.
6. During the course of the Snavelly study, it became abundantly clear that the two railways did not, in fact, know or even have easy access to accurate real cost breakdowns on the movement of export grain. They requested and were accorded seven additional months to prepare their estimates, thereby causing a target delay in the completion of the Snavelly report from December 31, 1975, to July 31, 1976.
7. It has become obvious that the companies do not employ similar accounting methods and results of their claims differ. The Snavelly Commission has been burdened with endeavoring to reach a conclusion on the cost of moving export grain which at best will be a compromised estimate.
8. Previously, however, claims were made publicly\* by both the CNR and the CPR pronouncing the extent of their so-called losses under statutory grain rates. These, it is now clear, were obviously nothing more than propaganda ploys designed to confuse the issues before the public and undermine the public confidence in the continued application of the Crows Nest Pass rates.
9. No one will disagree that western Canada requires an efficient rail transportation system for grain movement. But "efficient" by whose definition?

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\* "CP Rail of Montreal lost \$68 million in 1973 under the statutory Crows Nest Pass rates," it is reported in the Toronto Globe and Mail of April 9, 1975.

"Canadian National Railways loses about \$100 million annually on grain movement, CN President Robert Bandeen said last week," reports the Free Press Weekly of April 12, 1975.





10. From the railway companies' point of view the greatest degree of efficiency in grain movement might be to have all grain funnelled through one giant, single facility in each province. If at the same time railway companies were able to charge "what the traffic will bear" freight rate, that, too, would, in their terms, represent a yardstick for measuring "efficiency" as determined by their profits.
11. The farmer is interested in least cost service.
12. But what would the consequence be to farmers of railway companies reorganizing the rail system for grain movement to maximize their profit needs? We submit it would be disastrous.
13. Fewer rail lines and higher grain freight rates will not result in an efficient rail transportation system. A proper attitude toward grain movement and its priority is also required.
14. The railways possess a monopoly in long haul grain movement. There is no efficient viable alternative. The essence of the railway companies' proposals before this Commission is, in fact, to greatly increase their monetary reward for the movement of grain to the export market, both through higher rate charges and centralization, thereby compelling thousands of farmers to haul grain longer distances to gathering facilities which are functional to and better serve the increasingly inflated profit expectations of the companies.
15. The attitude of the railway companies toward grain movement has at times been absolutely deplorable despite the importance of this commodity in their total ton miles movement. We submit fewer rail lines and higher freight rates and/or subsidies do not guarantee a change in attitude or priority by the railway companies toward grain movement.
16. The central issue before your Commission insofar as farmers

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are concerned is unquestionably the future of the statutory Crows Nest Pass rates. They represent the basis for "least cost service" and must be retained.

17. If these rates are abrogated, every additional dollar in freight costs farmers will be required to pay will represent a direct transfer of wealth from the farm and prairie economy into the coffers of the railway companies, without any guarantee of reinvestment in the transportation sector.

18. In our view, a credible case against the statutory Crows Nest rates has not been made.

19. The need for the rates today is as valid as it was in 1897. The competitive position of western grain producers then, as now, is dependent in no small measure on the availability of an efficient transportation system, operating at reasonable rates. The 1925 statute has assured farmers of a reasonable rate structure. By their own admission, the railway companies have failed to provide an adequate and efficient transportation system, despite large and generous public subsidies.

20. Why? The reason offered by the CPR and agreed to by CN is revealing, if not candid. Speaking to your Commission on October 20, 1975, Mr. Burbidge, President of Canadian Pacific Limited, said in part:

"There is not enough money coming in from grain to even sustain the present facilities, let alone improve or modernize them. Any capital investment in the railway grain handling system is quite out of the question at this time because of the inadequacy of the revenues."\*

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\* Submission of the President, Canadian Pacific Limited, to the Grain Handling and Transportation Commission, Regina, Oct. 20, 1975.





21. This statement clearly reflects the negative attitude of the railway companies toward grain movement.

22. But what is the real nature of this claim? First, let it be again noted that the isolation of grain for purposes of so-called "cost-accounting" on a railway system that is national in scope and carries multiple commodities is arbitrary at best.

23. The real fact of the matter is that the railway companies are concerned, in the first instance, with a return on capital invested. They have reason to believe that higher returns on capital might be available if (a) they abandon much of the present branch line system and/or invest more of their capital in non-rail operations.

24. There is no question that both railways obtain adequate revenues and public subsidies to afford the efficient operation of the kind of transportation western Canada requires.

25. But as the CPR has unwittingly conceded, the railway companies can make more money doing otherwise.\*

26. This, in our view, is the crux of the matter. Historically in Canada, we have attempted to meet the public requirements for an efficient transportation system through the private sector, geared as it is to the pursuit of profit on capital invested. The notion that public need can be satisfied through private gain has, in the history of transportation policy in Canada, lost all credibility.

27. We remind the Commission that since 1879, successive federal governments have enacted legislation to achieve a different result, and have appointed an endless list of commissions to resolve the conflicts that arise between public need and private railroad interests.

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\* In this connection, we refer the Commission to a statement made by Ian Sinclair, Chairman of the Board of CP Ltd., in Businessweek, February 23, 1976.





28. The results, we submit, are instructive. Time and time again the public need has been compromised. Time and time again, the railway companies have demanded public gifts, bonuses, subsidies, etc., in return for deteriorating and inefficient service.

29. Yet, this remains the atmosphere and frame of reference in which the present debate concerning the future of grain and rail transportation services is being conducted.

30. It is important to recall that since the 1950's it has been the railway companies and their political allies who have mounted an unrelenting campaign to abandon branch lines, abrogate the Crow's Nest Pass rates, and otherwise dismantle or discredit legislative safeguards built up over the years to protect the public interest. These demands did not originate from the farmers nor the communities the railway companies were created to serve.

31. In this connection, the exceptional public financial support given the CPR in the construction of the first transcontinental railway (all of which they now would like to have us believe is unrelated to the current debate) and the unnecessary public servicing of the debts incurred by bankrupt railway companies, incorporated into the CNR, clearly grew out of the public understanding that rail transportation in Canada was subject to national goals and objectives.

32. Yet, it has been this very historic role of rail transportation that the railway companies have sought to discredit and abandon. A remark made by the President of the CNR to this Commission bears repeating:

"...if the railways had been free to charge normal commercial rates most of the necessary adjustment in branch lines would have been made gradually and without sudden or severe shock to the grain industry." \*

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\* Submission by R. A. Bandeen, President, CNR, to the Grain Handling and Transportation Commission, Saskatoon, October 15, 1975.





33. Put another way, the national interest would be served, according to CN, if communities were to adjust their needs to serve the profit concerns and interests of the railway companies.

34. And this is the issue the Commission must resolve in principle. Are the needs of farmers and their respective rural communities to be shaped, compromised and otherwise determined by criteria acceptable to the private needs of the railway companies? Or can the rural communities of western Canada count on the design and operation of a rail and grain handling transportation system subordinate to their needs and interests?

35. In the past, and to repeat, commissions have attempted to marry these two fundamentally antagonistic objectives. They are, we submit, irreconcilable.

36. It is precisely because public goals may differ from private corporate goals that governments as representative of the public interest have and must continue to restrain large corporations such as the CPR whose objectives are to seek ever increasing economic power through corporate concentration. This was made abundantly clear by CP's chairman and chief executive officer, Ian Sinclair, in appearing before the Royal Commission on Corporate Concentration\* on December 11, 1975, when he argued that what the country needed was more, not less, corporate concentration.

37. Nor, reports the Financial Times article, does Mr. Sinclair believe in public accountability when he warned that Canadian authorities should not attempt to imitate the U.S. government which has far stricter rules about corporate disclosure and combines than Canada has.

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\* Financial Times Service article by Joan Fraser reprinted in the Winnipeg Tribune, December 13, 1975.



"Americans," Mr. Sinclair said, "although fine people, tend to get 'hepped' on the idea of corporate disclosure."

38. Mr. Sinclair's philosophy clearly fits in well with the "user must pay" principle expounded by some this past year. The amount which the "user must pay" for a service would be dictated by the provider of the service. We can think of few areas where the "user must pay" concept is less appropriate than in grain movement where a monopoly situation exists and the user of the service has no input in evaluating whether the price he is asked to pay by the provider of the service is in fact justifiable.

39. While the railway companies have long decried the evils of the statutory Crows Nest rates, they have shown little inclination to eliminate many of the inefficiencies and weaknesses within their own operations which would facilitate and speed up grain movement and cut their presumed "losses". Their credibility as exemplified by their actions comes into serious question.

40. Thus, while "competition" is presumably too keen to arrange for such sensible cost saving actions as branch line trade-offs or joint running rights in the prairie rail network, joint action in CN-CP telecommunications operations is apparently more palatable as television commercials frequently remind us.

41. Why not an integrated operation in railroads?

42. Continued and increased public accountability by the railway companies is clearly needed.

43. For these several reasons, we reiterate our belief that the country requires a single, efficient public rail transportation system which will serve the country as an instrument of national policy for development and for the relief of regional disparity. In this respect, all outstanding dead weight debt of the CNR should be immediately





retired and/or written off by the federal government.

44. We strongly urge your Commission include in its report such a proposal as its prime recommendation.

45. We further recommend that:

46. *The Crows Nest Pass rates as they currently apply to the movement of grain be retained in perpetuity.*

47. *We urge you reject the principle of applying a measure of profitability to the railways based on a return on equity comparable to the generally accepted philosophy inherent in a free enterprise corporate capitalist society. We ask you to accept our view that this philosophy is incompatible in its application to the provision of essential services such as transportation of grain and must be rejected.*

48. *This is particularly important in a circumstance where no viable alternative to rail transportation exists or is likely to exist in the foreseeable future in the movement of grain to export positions. Competition between the rail carriers in this context is non-existent and out of the question.*

49. *The principle of maintaining fixed freight rates at the Crows Nest Pass levels assures the viability of our grain industry and increases the competitive position of our farmers on world grain markets.*

50. *Maintaining farm income at optimum levels has a greater effect in economically stimulating the total economy than does the transfer of vast new amounts of farm income to rail freight rates.*

51. If subsidies are required to provide an appropriate level of rail transportation to adequately serve the national interest (in meeting our grain export commitments, for example), the cost of such subsidies should be borne by all the citizens of Canada.

52. *Prairie farmers are better off in having the federal government purchase grain hopper cars for use by the railways rather than allowing the railways higher freight rates for grain and relying on them to purchase needed rolling stock.*





53. Branch line abandonment and rationalization should be considered only after assessment and implementation of all alternate methods of improving efficiencies within the system which would flow from a fully integrated railway service.

#### GRAIN HANDLING

54. While a monopoly situation in grain handling does not exist in the prairie region as a whole, it is clear that the grain handling companies have over the past several years through mutual agreement and trade-off created monopoly situations at well over one half of all country elevator delivery points.

55. Rationalization in the grain handling system has and continues to take place, forced in part by the need to reduce costs and maximize revenue by increasing volume throughput at individual facilities but it has also been hastened by the deteriorating and deplorable condition of many rail branch lines.

56. In a number of instances farmers adjacent to single company delivery points allege they have been subjected to additional rationalization pressures by elevator companies through such techniques as being accorded lower grades, higher dockage, poor delivery opportunity resulting from discriminatory boxcar allocation, lack of elevator space, etc.

57. These situations are attributed to the "lack of competition" by some farmers when in reality they are a form of coercion which is part of the centralization strategies employed by elevator companies themselves including at times those which are farmer-owned.

58. In the light of consolidation that has taken place it seems contradictory to hear some companies extol the virtues of "competition"



which supposedly accompanies the costly duplication of elevator services at a number of key prairie delivery points. Competition in this context must not be confused with efficiency. Efficiency in operations can in part be measured by the number of times a facility can turn over its capacity in a season. By this criteria many facilities in multi-company delivery points must of necessity be extremely inefficient. Somebody has got to pay - and that can only be the farmer - somewhere else perhaps - but the system will extract the cost in some manner in order to achieve a satisfactory level of profit on its total operations.

59. It is a long established and accepted axiom that "competition destroys profits". The supposed end result of competition, then, should result in only the most efficient operations surviving and if projected to its logical conclusion result in the creation of a monopoly.

60. The benefit to farmers of "competition" is sometimes said to result in better grades, lower dockage, lower grain handling tariffs, etc.

61. However, it is a fact that grade standards for grain and related matters such as weight, moisture content and dockage are established by a federal agency, the Canadian Grain Commission.

62. To be absolutely principled about it, a farmer should expect to receive no less or more than the actual federal grade and dockage of his product, no matter where he delivers if he truly believes in quality control and the federal grading system which is widely accepted as one of the best in the world. It was, after all, the right to be paid for proper grades and weight that formed the very essence of early farm issues. Struggles against the Winnipeg Grain Exchange and the CPR at the turn of this century led to the organization and





formation of farmer-owned grain companies.

63. The type of "competition" one now sometimes hears about appears to be of the kind which may only accord a farmer a proper grade for his product - a right to which he is entitled by law. It does in some circumstances, however, also imply overgrading which, with few exceptions, can only result in one farmer being extended an advantage at the expense of another.

64. This latter type of competition, where it exists, is exploitive because it cultivates greed and basic dishonesty. No elevator company can give all of its customers an inflated grade for grain and expect to long survive. If some farmers receive higher grades than quality dictates, it can be anticipated other farmers will be penalized to compensate the loss. This type of discrimination has been found to exist in the beef industry and is the kind of "competition" that must be eliminated.

65. Indeed, it is of more than passing interest that the "competition" of open market buying of domestic feed grains which was to prevail in the last two crop years failed miserably and domestic feed grain <sup>prices</sup> / are now established by the Canadian Wheat Board on a daily price quotation.

66. The advocates of "competition" never had a better opportunity to prove just how efficient open marketing could be in maximizing farm income returns with equity. They literally fell flat on their faces.

67. The essential role of flexible grain handling tariffs established by the Canadian Grain Commission within recent times is also intended to foster "competition" between grain companies, but essentially it is being used to coerce or bribe farmers in outlying areas to haul their grain longer distances past existing elevator facilities, thereby hastening the centralizing process. The flexible tariff





enables the exercise of discrimination against one delivery point as opposed to another which eventually will result in the economic demise of the delivery point against which the company assesses a higher handling tariff. The "choice" will be credited to farmers if the point is then bypassed and eventually closed.

68. The essence of "competition" in the context of the current grain handling industry debate includes in our view a competitive bid by the multinational grain companies to control a sizeable amount of Canadian grain in order to prevent it from developing into a further effective competitive factor in world trade, much of which is now controlled by the multinationals.

69. Cargill Grain is such a company over whose Canadian presence we have previously expressed our concern. Company representatives appearing before this Commission have voiced their sensitivity to criticism of their operations and motives, presumably made by organizations such as our own.

70. We make no apologies for such criticisms since it is the Canadian interest we have at heart.

71. It should be of interest to your Commission to know, for example, the comparative size of operations of Cargill Inc. relative to the Canadian Wheat Board.

72. Cargill Inc. reported on June 23, 1976, to the U.S. subcommittee on Multinational Corporations of the Senate Foreign Relations Committee\* that it and its subsidiaries earned just over \$179 million on sales of \$10.795 billion for the fiscal year ended May 31. While no breakdown is available to us respecting the amount of grain sales represented by this figure, we assume it represents a major portion.

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\* Source: Reported in "Grainews", July, 1976



73. The Canadian Wheat Board in the 1974-75 crop year reported total grain sales of only \$3.3 billion. It markets only Canadian grain. The multinational grain corporations market grain from several countries.

74. Cargill's operations were questioned by the subcommittee chairman Senator Dick Clark, who, in his opening remarks, stated:

"Today, by looking at Cargill's organization and operations in some detail, we hope to be able to better understand how and why an exporter of this size is organized. As the largest exporter of U.S. grain, Cargill exported, in 1974, 29 per cent of U.S. wheat, 16 per cent of U.S. corn, 18 per cent of U.S. soybeans, 22 per cent of U.S. sorghum, 42 per cent of U.S. barley.

"Not only is Cargill the largest grain exporter in the U.S., it is also the largest privately-owned exporting house. It is essentially for these reasons that the subcommittee decided to examine Cargill more closely than other companies in this series of hearings.

"The grain companies insist that their success and profitability is due to the stiff competitive climate existing in the trade. However, information received thus far in the subcommittee's hearings suggests that co-operation and mutual understanding may have supplanted competition in some areas of the business.

"Now we turn our attention to the structure of these major firms. Are they American companies, or can they be more accurately characterized as multinational corporations? Do they operate with any regard for U.S. policy considerations, or strictly on the basis of their own financial interests?

"If the latter is true, then the role these firms play in exporting our grain must be thoroughly understood to ensure that American economic and foreign policy interests are fully protected."

75. When the U.S. Senate must question whether or not Cargill operates with any regard to U.S. policy considerations or strictly on the basis of their own financial interests, we believe it should be warning enough to the farmers and government of this country to take a good hard look as well.

76. Trading as it does on a world-wide basis as seller of grain produced in various countries, we can be certain that the interests





of farmers in Canada will not be placed ahead of those in the U.S. for example, unless the opportunity to make a greater profit on a Canadian sale presents itself. Whose interests is it, then, serving - that of the buyer or the seller? How does Cargill decide whether to sell a Canadian grain or a comparable U.S., Argentine or Australian grain?

77. We submit control of the product by a corporation, thereby preventing that product from competing in world sales against product it already controls elsewhere is a key and fundamental objective of a multinational corporation such as Cargill. It simply makes good business sense on their part but let us not lose sight of what the implications are to Canadian interests and ask ourselves if that is really the direction in which we wish to go.

78. While this matter would appear to exceed the terms of reference of this Commission, we submit that recommendations this Commission may make and which may then be accepted as national policy can in large measure influence the future directions of this type of domination.

79. The centralization of grain handling facilities and the construction of inland terminals is functional toward the economic ends of a multinational grain corporation such as Cargill.

80. Increasingly it becomes apparent that prairie producers are being led down the path by the railway companies and the multinational grain corporations in the direction of emulating the U.S. model in grain handling and movement.

81. What are the basic characteristics of this model? Concentrated delivery points; extremely high costs in rail grain movement to terminal points; long trucking distances by farmers to elevator or terminal facilities; the employment by the companies of a flexible





grain handling and freight rate structure which is used to manipulate farmers into making economic decisions on grain delivery which will serve the economic needs of the grain companies and railways, open market pricing.

82. The Canadian system is quickly drifting in this direction and must be stopped. The statutory Crows Nest Pass rates represent the last major obstacle in clearing the way to the introduction of flexible freight rates which can then be used by elevator companies and railway companies as an economic lever to further force rationalization.

83. The costs of the newly emerging system will be borne in large measure by farmers. No one now knows how much it will cost but suffice it to say it will be substantial.

84. Should grain freight rates, for example, be allowed to rise to three or four times their current level as they now are in the U.S., it would mean in effect that for each 10,000 bushels of wheat delivered by a farmer to an elevator point which is currently on a 22 cent per cwt. freight rate at an annual cost of \$1,320, his cost, if the rate tripled, would increase to \$3,960, an increase of \$2,640. To many small producers on a section of land, this amount has in many years represented more than the difference between profit and loss. In addition, he may well be required to haul it a much longer distance.

85. And what will he get in return?

86. Basically nothing. His grain will be received by an elevator and eventually be shipped to a terminal outlet. There is no guarantee that it will be done any more expeditiously than at present, but certainly at higher cost to the farmer.

87. Are we then visualizing rendering the farmer's operation in grain delivery to become both higher cost and less efficient?

88. We submit in thousands of instances this will be the result. To



arrive at an equitable balance in rationalization of grain handling facilities and branch line abandonment in order to avoid a disproportionate share of increased cost in grain delivery being transferred onto the shoulders of farmers is a matter of major concern to us.

89. Where rationalization can be achieved to minimize this cost increase, we concur. At the same time, we caution that it is not good enough to eliminate wasteful duplication of facilities at some points simply to recreate them on a grander scale elsewhere.

90. The cost of all new elevator facilities currently constructed or in the planning stage of construction will be paid for out of the value of future farm production.

91. Farmers have already paid for the existing system which in many instances is still functional and may in reality represent a much lower cost for service to the farmer than some of the grandiose structures now being conceived.

92. No public restraint is currently exercised by any federal agency on the location of new elevator facilities or the closure of existing ones. Still such decisions made in the board rooms of elevator companies bears strong influence on which rural communities may be viable in future and which will be permitted to wither. Implications to public expenditure relative to upgrading highway facilities and the provision of services are nonetheless affected without consideration of or input by the public sector.

93. We ask in all sincerity whether such decisions which can have far-reaching effects should be totally divorced from public concern? We believe not.

94. The burden which rests on this Commission is a heavy one. The conclusions you reach and recommendations you make will hold far-reaching implications for farmers and rural communities well into



Enlightenment came in a flash of glory:

the next century.

95. For these several reasons, we conclude and recommend:

- 1) *While the trend toward consolidation of country elevator facilities should continue in future in order to remove duplication of service and inefficiencies, the Commission should seriously examine and appraise the claimed benefits of "competition" to farmers advanced by some companies which is resulting in recreating duplication of service and facilities at some centralized delivery points without cost saving benefits to farmers.*
- 2) *Further in this respect, the Canadian Grain Commission must exercise greater discretion in the granting of licenses for the construction of new facilities at delivery points where potential volumes of efficient throughput can only point toward the elimination of existing facilities elsewhere capable of currently servicing farmers at less cost. Abandonment of existing facilities should become a matter of public concern and scrutiny as well to assure the economic disadvantages will not outweigh the benefits.*
- 3) *The encroachment of multinational foreign grain corporations into the Canadian grain handling and marketing should be recognized for what it is, a move to restrain and control the marketing of Canadian grain in world markets, thereby suppressing its competitive influence on the private marketing efforts of the multinationals themselves. The implications of this trend on Canada's future needs to be strongly stated in your report to the federal government with a recommendation that it be restrained in the national interest.*

All of which is respectfully submitted by  
THE NATIONAL FARMERS UNION.













